

Summary of hearing with Mackays Limited held on Wednesday 6th September, 2006

About Mackays

1. Mackays told us that it was the only marmalade maker left in the world from Dundee, the home of marmalade. It was located right beside the berry fields of Scotland, the only Scottish soft fruit. Today Mackays had 20 per cent of its business with UK multiples; 50 per cent of their sales were with UK independents, and 30 per cent were with exporting, the latter from a zero base ten years ago. The company started with £0.25 million pounds' worth of sales in 1995, this year they will achieve approximately £7 million.
2. Mackays told us that 50 per cent of its business was with the independent trade, such as garden centres, farm shops, delicatessens, visitor attractions, where premium foods and food gifts were seen as a very useful and important addition to the range. Therefore the scale advantage of being an efficient supplier to a grocer had meant that Mackays had been able to create an alternative brand which it would not supply to supermarkets; Mackays sold its alternative brand to the independent trade, which was growing in terms of opportunity.
3. Both brands were exported to many markets and in a number of cases, both brands were in the same market with different customer arrangements.

Relationship with UK multiples

4. Mackays told us that the scale and reputation of the Tesco business helped it enter new markets and find new customers. Initially the product was developed for Tesco and Tesco understood that it was the premium everyday brand that Mackays manufactured. Mackays also sold to Sainsbury's, Co-op, and Waitrose in Scotland. Mackays did not currently trade with Asda, Morrisons or discounters. Mackays's other trading partners liked the fact that it did not necessarily trade with head-to-head competitors.
5. Mackays told us that its arrangement with Tesco was very simple; Mackays understood Tesco's margin expectation, Mackays made a price offer, Tesco accepted the offer and set Mackays up to trade. Tesco did not ask Mackays for contributions to marketing as Tesco had traded with them for nine years without a promotion offer or a price reduction. Mackays felt the reason for that was twofold—first, was that Mackays had achieved, every year, greater growth than expected in the category; second, was that Tesco had accepted that Mackays did not have the capacity to support a major promotion without disrupting its total business. Mackays had shared with Tesco that it was investing significantly in capacity expansion, and at that point Mackays would consider some form of promotional activity on a controlled basis, proactively working with Tesco for growth.
6. Mackays stated that compared with margins made selling to independents and export, the margins Mackays made with Tesco were the lowest, yet Mackays felt that it would not succeed without those margins. Mackays stated that as growth had happened with Tesco, it had at times been challenged to review its pricing in recognition of its scale. Tesco had, during the nine years, reviewed Mackays supply price in relation to how Mackays had been delivering improvements.

7. Mackays told us that dealing on such a scale at Tesco made up for the lower gross margin. The margin was going to be lower because of the distribution costs; in this case the distribution was to central warehouse. Mackays had gone into the Bougheys operation, which was a warehousing operation set up for independent manufacturers. The advantage to Mackays was that it utilized one distribution outlet instead of going to a number of distribution centres across the UK, saving waiting time and potential haulage issues.
8. Mackays told us that it did not currently manufacture private label for the multiples, but that it did do private label for non-multiple companies. The customers were prepared to underwrite the packaging; in many cases, the customer bought the packaging for itself and supplied it to Mackays, and were prepared to put some sort of financial commitment to the intent. Mackays told us that it did a very big private label for Wedgwood in Japan. It made marmalades and jams for the Elsenham brand now that they had closed their factory in Essex, and it also made the Whittard Tea, and Coffee Shop brand.
9. Mackays told us that it had had three lines with Sainsbury's in Scotland for the last four years and had recently extended in Sainsbury's to ten lines. Mackays stated that as far as Sainsbury's were concerned Mackays had a regional pricing policy for them. If Mackays went UK national then it would likely have a different price structure.
10. Mackays told us that Waitrose had always been one of its preferred customers as this brand was positioned, in its view, as an everyday premium. When Waitrose went to Scotland it was a breakthrough Mackays wanted—to have Scottish manufacturers supplying Waitrose. Mackays were in two Waitrose stores in Scotland in the hope that it might impress in terms of rate of sale and that Waitrose might extend Mackays's geographical spread as a result.
11. Mackays told us that it had been with Co-op in Scotland for three years. Mackays initially had four lines listed, and now had eight. Mackays informed us that it supplied the Co-op (UK) with gift packs for Christmas.

Customer expectations

12. Mackays told us that it had been able to become much more competitive as a supplier to other customers as a result of it being a supplier to high-profile UK multiples, therefore Mackays felt that the customer got the impression that it was competent, capable, accredited, and understood service. Mackays had now created an export business because of that relationship. Mackays felt that it also had credibility, not just in Scotland, as a UK supplier to Tesco.
13. Mackays told us that supplying a multiple grocer was a very challenging experience, as it was tough, demanding, and it set challenging standards. Mackays treated its multiple relationships very seriously and with priority so that the multiples were not able to pick on Mackays's weaknesses and take advantage of them.
14. Mackays's message to us was that it felt it was possible to be a branded supplier to a major supermarket like Tesco, and that it could actually be a platform for expansion. Mackays did not support the view that the supermarket would always try and squeeze you dry, and made you depend on them. Mackays felt that supplying supermarkets was good in helping it recognize the opportunity of scale early on and doing something about that advantage.

15. Mackays told us it had always felt strongly that to be a competitive exporter you needed to supply a UK multiple nationally. This gave scale advantage on material pricing and credibility to overseas customers.